

Message Text

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PAGE 01 TOKYO 09809 261001Z

12

ACTION EA-14

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INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

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TO SECSTATE WASHDC 3359

INFO AMEMBASSY JAKARTA

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E.O. 11652: NA

TAGS: EGEN JA

SUBJ: JAPAN'S PRICING POLICY

SUMMARY: DESPITE PRESSURE FROM BUSINESS TO RELAX EMERGENCY PRICE AND CONSUMPTION CONTROL SYSTEM NOW IN EFFECT, JAPAN'S ECONOMIC POLICY MAKERS SEEM TO HAVE CONCLUDED THAT A "FLEXIBLE" DEMAND RESTRAINT PROGRAM SHOULD BE CONTINUED, AT LEAST THROUGH SEPTEMBER. AT SAME TIME LEADERSHIP IS STRESS-ING NEED FOR ECONOMIC POLICY TO CONFORM TO "ECONOMIC REALITIES", THUS SETTING STAGE FOR POSSIBLE REMOVAL OF CONTROLS LATER IN YEAR. END SUMMARY.

1. IN SERIES OF PUBLIC STATEMENTS AND INTERVIEWS, FINANCE MIN OHIRA HAS STATED INTENTION TO MAINTAIN, AT LEAST FOR A WHILE, FORMER FINANCE MINISTER FUKUDA'S DEMAND RESTRAINT PROGRAM, INCLUDING PRICE AND INVESTMENT CONTROLS. AT SAME TIME HE HAS INDICATED THAT CURRENT CONTROLS ARE NOT INTENDED AS LONG TERM POLICY AND THAT

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EVEN IN SHORT TERM SOME RELAXATION OF INVESTMENT

RESTRAINTS MAY BE NECESSARY TO ASSURE STABLE SUPPLY.

2. THIS BASIC POLICY LINE WAS CONFIRMED BY "ECONOMIC MINISTERS" (FINANCE, INTERNATIONAL TRADE AND INDUSTRY, AGRICULTURE/FORESTRY, AND CHIEF CABINET SECRETARY) AT MEETING JULY 23, AT WHICH THEY ENDORSED PAPER PREPARED BY ECONOMIC PLANNING AGENCY DIRECTOR GENERAL UCHIDA CALLING FOR: A) CONTINUATION OF OVERALL DEMAND RESTRAINT PROGRAM; B) CONTROLS ON EQUIPMENT AND CONSTRUCTION INVESTMENT; AND C) ESTABLISHMENT OF CABINET LEVEL GROUP TO PROMOTE CONSERVATION OF ENERGY AND RAW MATERIALS. MINISTERS ALSO CONCLUDED THAT CONTROLS MAY BE LIFTED ONLY AFTER EXAMINATION PRICE TRENDS ON A CASE BY CASE BASIS.

3. COMMENT: TOP GOJ LEADERSHIP EMPHASIS ON PRICE CONTROLS COMES AFTER SERIES OF ANNOUNCEMENTS THAT RISING COSTS HAVE FORCED GOVERNMENT TO PERMIT CONSUMER PRICE HIKES RANGING FROM 15.8 PERCENT FOR ALCOHOLIC BEVERAGES TO 35 PERCENT FOR RICE. IN ADDITION, LARGE RATE INCREASES ARE EXPECTD DURING NEXT FEW MONTHS IN NATIONAL RAILWAY FARES (PRIVATE RAILWAY FARES WENT UP 27 PERCENT JULY 20), BUS STREETCARS AND LPG. PRIME MINISTER HIMSELF HAS ATTRIBUTED LIBERAL DEMOCRATIC PARTY SETBACK IN UPPER HOUSE ELECTION JULY 8 TO PUBLIC DISSATISFACTION WITH ANTI-INFLATION POLICIES OF TANAKA CABINET. LEADERSHIP THEREFORE APPARENTLY HAS CONCLUDED IT CANNOT AFFORD TO LIFT PRICE AND CONSUMPTION CONTROLS FOR TIME BEING.
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